

FROM: Audit and Risk Manager **SUBJECT:** Purchasing Cards
TO: Head of Finance **DATE:** 28 April 2021
C.C. Chief Executive
Deputy Chief Executive (AJ)
Exchequer Manager
Finance Administration
Manager (JD)
Portfolio Holder (Cllr Hales)

1 **Introduction**

- 1.1 In accordance with the Audit Plan for 2020/21, an examination of the above subject area has recently been completed by Nathan Leng, Internal Auditor, and this report presents the findings and conclusions for information and, where appropriate, action.
- 1.2 Wherever possible, findings have been discussed with the staff involved in the procedures examined and their views are incorporated, where appropriate, into the report. My thanks are extended to all concerned for the help and cooperation received during the audit.
- 1.3 The audit was undertaken during the COVID-19 pandemic. This has meant a slightly different approach has been taken to complete the audit. Rather than observing staff members and meeting staff face to face, correspondence has been via email or Teams video calls.

2 **Background**

- 2.1 Purchasing cards were introduced to staff for low value expenditure to be made without the need for formal orders to be raised. They have the advantage of low financial running costs compared to traditional purchasing order payments and are valued for their efficiency.
- 2.2 This is the first audit to take place after the purchasing card provider changed from HSBC to NatWest (October 2020). NatWest provide an online system (SDOL) designed to automate various aspects of the transaction approval and review processes.
- 2.3 There were 81 cardholders at the beginning of February 2021, with cardholders in each department of the Council.

3 **Scope and Objectives of the Audit**

- 3.1 The audit was undertaken to test the management and financial controls in place to manage purchasing cards.

3.2 The scope considered as part of this audit include:

- Applications, amendments and cancellations.
- Terms of use.
- Transaction processing.
- Expenditure analysis.

3.3 The expected controls for the provision of purchasing cards are identified in the audit programme. The control objectives that have been considered as part of this audit include:

- Cards are issued to appropriate and authorised users.
- Expenditure is appropriately controlled.
- Leavers are unable to undertake transactions on their purchasing cards.
- Staff understand the benefits of holding a purchasing card.
- Staff understand the purchasing card application process.
- Purchasing cards are used within the terms of use.
- There is appropriate oversight of expenditure by senior staff.
- Budget holders can accurately track their expenditure.
- The Council is transparent regarding its expenditure.
- Appropriate procurement practices are being followed.

4 Findings

4.1 Recommendations from Previous Report

4.1.1 The current position in respect of the recommendation from the previous audit of these subsystems undertaken in March 2018 was also reviewed. The current position is as follows:

Recommendation	Management Response	Current Status
1 Regular analysis of purchasing cards usage should be undertaken.	Regular analysis of card usage is undertaken to ensure compliance with the agreed procedures. Consideration to be given how the currently available data can be further analysed ahead of the new Procurement Card system being produced.	Monthly analysis is carried out on a sample of transactions to verify whether the agreed procedures have been adhered to. Consideration is being given to use the new NatWest SDOL system to facilitate in-depth expenditure analysis.

Recommendation	Management Response	Current Status
2 Purchasing card expenditure should be further analysed to ascertain whether the Council would meet the thresholds for receiving discounted rates with accommodation providers.	A Procurement Card system is due to be produced in 2018/19 that will streamline the process and enable improved interrogation of the transactions. Data to be analysed as part of forthcoming Spend Analysis.	Consideration is being given to use the new NatWest SDOL system to facilitate in-depth expenditure analysis. Spend Analysis was conducted.
3 Expenditure via purchasing cards and via TOTAL should be further analysed to ascertain whether the Council would meet the thresholds for receiving discounted rates with train companies.	A Spend Analysis is due to be undertaken in-house in 2018/19. Whilst this will primarily be of the transactions within Total, the Purchasing Card data should be evaluated alongside this.	Spend Analysis was conducted. Consideration is being given to use the new NatWest SDOL system to facilitate in-depth expenditure analysis.
4 Cardholders should be instructed that transaction limits should be adhered to, with attempts to circumvent these limits being reported to senior managers.	This has been completed. An email has been sent to all cardholders and copied to SMT Plus to advise them of this requirement with an amended procedure document also being issued. The issue has also been highlighted to the FS Team and they have been advised to notify the Finance Administration Manager if they notice any further instances.	All cardholders and approvers are emailed and provided access to guidance documents. Cardholders are also required to sign a cardholder agreement form to show they understand and agree to the conditions of use for purchasing cards.

4.2 Applications, Amendments & Cancellations

4.2.1 Purchasing card (PCard) applicants must complete a 'New Card Request' form. Applicants are required to submit personal information to satisfy the anti-money laundering guidelines of the PCard provider NatWest. Forms must be signed by the appropriate Head of Service to ensure PCards are only issued when there is a legitimate business need for one.

4.2.2 Completed forms are emailed to the Finance Admin Manager (FAM) via the Financial Services team (FS-Team) email account. Once the FAM has cleared the request form, a new PCard is ordered and sent to the

applicants' home address. The FAM also emails the applicant to outline the status of their application and provide further information. A PCard agreement form and guidance document is attached to the email.

- 4.2.3 The PCard agreement form outlines the terms and conditions that cardholders must abide by when using their PCard. Prospective cardholders are instructed to read, sign and return the form to the FAM who advised that a copy of the form is passed to HR Support and held in the individual's HR file. The FAM sends a follow-up email if the form has not been returned within three to four days. If after seven days the agreement form has not been returned, the card is blocked from use until the form has been received.
- 4.2.4 Testing was undertaken to ensure that PCard applications follow the correct application procedure. The test examined applications made after the purchasing card provider changed to NatWest.
- 4.2.5 Testing revealed that, in every case, the application procedure was followed in full and evidence of documents and email conversations held for every step of the process. In one case, however, the PCard was not delivered. The FAM was notified by the applicant and the card was promptly cancelled and a replacement reordered.
- 4.2.6 The minimum PCard expenditure limit is £1,000. There is no upper limit for single transactions or monthly totals. However, limits are determined on a case-by-case basis by the Heads of Service.
- 4.2.7 Requests to amend a PCard spending limit are made via the 'Increase or Decrease Card Limit Request' form. These forms require information about the cardholder, their previous spending limit and the proposed new limit. The form also requires the signature of the appropriate Head of Service. The FAM reviews the completed forms and amends the spending limit as appropriate. In response to increasing remote and digital working practices, the FAM also accepts emailed instruction from the cardholder's Head of Service (HOS). As a result, the request form is now rarely used.
- 4.2.8 At the time of writing this report, the Council have introduced the new I-Trent HR & Payroll system. Previously, the FS-Team received two separate alerts for staff who have left the Council - an automated alert from ICT stating the name of the former staff member and a quarterly starter and leaver report from HR. The new I-Trent system is actively updated by HR allowing immediate workflow notifications to the FS-Team for staff who have moved within or left the Council.
- 4.2.9 Under the processes that existed at the time of audit testing, the HR report included information on all individuals who have joined or left the Council over the previous three months as well as those who had changed job role. The FAM cross-referenced these reports with up-to-date lists of active cardholders, blocking cards as appropriate.
- 4.2.10 Since the HR reports were issued on a quarterly basis, there was a minor risk that notification of staff who have changed job role within the

Council may not have been immediately picked up. In these instances, PCards may have remained active for longer than necessary. The recent introduction of the I-Trent system, however, should mitigate the risk.

- 4.2.11 Cancellation request forms are available on the intranet for cardholders and their Head of Service. However, the FAM confirmed this form is not often used with HOS and line managers preferring to email the cancellation request directly to the FS team.
- 4.2.12 When a PCard is cancelled, the FAM requests photographic evidence that the card has been destroyed. There are three examples of cancelled PCards after the card provider was changed to NatWest in October 2020. In all three cases, the cards were cancelled within 24 hours of the cancellation request being received by the FAM. Every case had photographic evidence of the destroyed card saved on file.
- 4.2.13 Information covering the PCard application, amendment and cancellation processes is available to staff via the FS-Team intranet page. Staff can also find information on the business case for using PCards on the same page.

4.3 **Terms of Use**

- 4.3.1 Cardholders are made aware of the terms of use during the PCard application process. The FAM emails two documents to an applicant upon receipt of a valid PCard request form; the PCard agreement form and the PCard holder guide. New cardholders are required to sign the PCard agreement form before being issued a card.
- 4.3.2 The FAM notifies cardholders of significant changes to the terms of use. The FAM communicates with cardholders on an 'ad-hoc' basis and when the need arises.
- 4.3.3 Cardholders are required to use their PCard for appropriate reasons and must report expenditure in line with compulsory procedures. Failure to comply can result in the PCard being blocked or disciplinary procedures.
- 4.3.4 Transactions must be reviewed by the cardholder. A transaction review involves the cardholder populating the NatWest SDOL system with details of a transaction. Transactions are available for review as soon as they have been posted on the SDOL system. This usually takes a couple of days from the date the transaction was processed.
- 4.3.5 Once all the required information has been confirmed by the cardholder, the transaction is available for authorisation on the SDOL system by a PCard approver. Approvers verify that all transaction information is present and correct before authorising the transaction.
- 4.3.6 In instances where information is found to be incorrect or incomplete, the approver sets the transaction back to the review stage on the SDOL system and emails the cardholder outlining any changes that need to be made. Some users of the SDOL are both cardholders and approvers. In

these instances, the individual is not permitted to authorise their own transactions.

- 4.3.7 Cardholders and approvers are strongly encouraged to review and authorise outstanding transactions as soon after the transaction as possible throughout the month. However, transactions must be reviewed and authorised no later than seven days after the 28th day of the month. Failure to adhere to this timescale will result in the PCard being blocked until all transactions from the previous statement have been authorised.
- 4.3.8 The FS-Team conduct quality assurance checks on the transaction approval process for all PCard transactions. However, the overall responsibility for ensuring the accuracy and timeliness of transaction reviews rests with the approvers.

4.4 **Transaction Processing**

- 4.4.1 The procedure for processing transactions mandates that transactions are authorised by a PCard approver. This ensures that every transaction is scrutinised and approved by an authorised senior staff member.
- 4.4.2 At the time of audit testing, monthly expenditure journals had been created for October to December. These journals include the value, description and general ledger cost-code for each transaction. Each journal includes the net expenditure as well as the total VAT for all PCard expenditure made during the month. Due to issues with cardholders not supplying all relevant transaction details, and approvers not authorising transactions, the journals for latter months had been delayed. However, between the audit testing and writing this report, the FAM advised that all journals up to March 2021 have now been completed.
- 4.4.3 The Local Government Transparency Code (LGTC) (2015) requires the Council to publish details of every purchasing card transaction. Analysis of the transaction report for October 2020 revealed it did not include a summary of the purpose of the expenditure. The FAM confirmed that this was due to cardholders failing to provide a sufficient description of their transactions. However, as part of the report drafting process, the FAM advised that the October report has now been amended to include the purpose of expenditure. Previous reports for 2020 were reviewed and showed full compliance with the requirements set out in the LGTC (2015).
- 4.4.4 The LGTC (2015) also requires the Council to publish PCard transaction data not later than one month after the quarter to which the data and information is applicable. Analysis of the Council website revealed that the most recent report is October 2020, uploaded November 2020. This is the first report to include data of transactions made on NatWest PCards. This shows the Council is in breach of its obligations to the LGTC (2015) as the monthly transaction data for November and December 2020 should have been published before the end of January 2021. However, delays in processing and reporting this data is attributed to the recent switch in PCard provider.

- 4.4.5 This problem has been caused by cardholders and approvers repeatedly not following required procedures, despite the best efforts of the FAM to ensure compliance. No recommendation is considered necessary, however, as it is believed that these issues will dissipate as cardholders become familiar with the new system and processes and, during the drafting of this report, the FAM confirmed that all financial tracking reports up to March 2021 have now been completed.
- 4.4.6 The above testing also revealed that the financial information was not easily accessible via the Council website. The FAM liaised with the Website Service Manager to implement search bar optimisation to rectify this and improve access.

4.5 **Expenditure Analysis**

- 4.5.1 The previous audit of this area (2018) included analysis of PCard expenditure and made recommendations that regular analysis of expenditure should be undertaken to identify procurement cost savings with frequently used suppliers. The FAM advised that a new procurement card system was being sought that could offer a streamlined process allowing more in-depth analysis.
- 4.5.2 During this audit (2021), the FAM confirmed that the new NatWest SDOL system has the capability to facilitate this sort of expenditure analysis. Due to resource constraints this feature is currently not being used. However, the FAM plans to make use of this feature in the future.
- 4.5.3 Analysis of expenditure as part of this audit has not been possible due to the unavailability of the monthly transaction logs for purchases made after the switch to NatWest.

5 **Conclusions**

- 5.1 Following our review, in overall terms we are able to give a SUBSTANTIAL degree of assurance that the systems and controls in place in respect of the use of Purchasing Cards are appropriate and are working effectively.
- 5.2 The assurance bands are shown below:

Level of Assurance	Definition
Substantial Assurance	There is a sound system of control in place and compliance with the key controls.
Moderate Assurance	Whilst the system of control is broadly satisfactory, some controls are weak or non-existent and there is non-compliance with several controls.
Limited Assurance	The system of control is generally weak and there is non-compliance with controls that do exist.

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